



## COSCO Pacific Limited

(Incorporated in Bermuda with limited liability)

### ANNOUNCEMENT OF 1999 INTERIM RESULTS

#### RESULTS

The board of directors of COSCO Pacific Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 1999, together with the comparative figures for the corresponding period of last year, as follows:

		Six months ended		Increase/
		30th June		(Decrease)
		1999	1998	%
	<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>	
Turnover	(1)	108,437	109,055	(0.6)
Operating profit		43,420	44,458	(2.3)
Share of profits less losses of				
- associated companies		25,034	24,344	2.8
- jointly controlled entities		1,452	1,460	(0.5)

Profit before taxation		69,906	70,262	(0.5)
Taxation	(2)	(2,917)	(3,417)	(14.6)
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Profit after taxation		66,989	66,845	0.2
Minority interests		(377)	(272)	38.6
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Profit attributable to shareholders		66,612	66,573	0.1
Dividends	(3)	(22,385)	(20,655)	8.4
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Profit for the period retained		44,227	45,918	(3.7)
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Basic earnings per share	(4)	US3.20 cents	US3.24 cents	(1.2)
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Notes:

### (1) Turnover

Turnover represents the income from container leasing, container handling and storage and container terminal operations.

	Six months ended	
	30th June	
	1999	1998
	<i>US\$ '000</i>	<i>US\$' 000</i>
Container leasing	100,492	101,434
Container handling and storage	5,645	5,505
Container terminal operations	2,300	2,116
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	108,437	109,055
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### (2) Taxation

	Six months ended	
	30th June	
	1999	1998
	<i>US\$ '000</i>	<i>US\$' 000</i>
Company and subsidiaries:		
Hong Kong profits tax	202	185
Overseas taxation	206	640
Overprovision in prior years	--	(488)
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	408	337
Associated companies:		
Hong Kong profits tax	2,465	2,893
Jointly controlled entities		
Overseas taxation	44	187
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	2,917	3,417
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Hong Kong profits tax has been calculated at a rate of 16% (1998: 16%) on the estimated assessable profits. A substantial portion of the Group's profits neither arises in nor is derived from Hong Kong. Accordingly, that portion of the Group's profits is not subject to Hong Kong profits tax.

Taxation on overseas profits has been calculated on the estimated assessable profits at rates prevailing in the countries in which the Group operates.

### (3) Dividends

	1999	1998
	<i>US\$ '000</i>	<i>US\$' 000</i>
Interim, proposed of US0.994 cents (1998:US1.007 cents) per ordinary share	21,258	20,655
Additional 1998 final dividend paid on shares issued due to the share placement before the closure of the register of members	1,127	--

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22,385

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20,655

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#### **(4) Basic earnings per share**

Basic earnings per share for the six months ended 30th June 1999 is calculated on the profit attributable to shareholders of US\$66,612,000 (1998: US\$66,573,000) and on the weighted average number of 2,079,323,165 (1998: 2,051,826,521) shares in issue during the period.

Diluted earnings per share is not presented as the exercise price of the Company's outstanding share options are higher than the fair value per share throughout both periods.

### **INTERIM DIVIDEND**

The board of directors has declared an interim cash dividend of HK7.7 cents per share for the six months ended 30th June 1999 (1998: HK7.8 cents per share). The interim dividend will be payable on 4th October 1999 to the shareholders whose names appear on the register of members of the Company on 30th September 1999.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Friday, 24th September 1999 to Thursday, 30th September 1999, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 23rd September 1999.

### **REVIEW OF OPERATIONS**

For the six months ended 30th June 1999, the Group's profit attributable to shareholders amounted to approximately US\$66,612,000, a modest gain of 0.1% compared with the same period last year, whereas turnover declined by 0.6% to approximately US\$108,437,000. An analysis of the turnover and profit by principal activities is as follows:

<b>Activities</b>	<b>Turnover</b>	<b>Contribution to operating profit</b>	<b>Profit attributable to shareholders</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Container leasing	100,492	42,395	42,239
Container terminal operations	2,300 *	786	19,176
Container handling and storage	5,645	1,683	1,404
Container related industries	---	---	331
Other investments	---	---	4,906
Less: unallocated financial and administrative expenses of the Group	---	(1,444)	(1,444)
<b>Total</b>	<b>108,437</b>	<b>43,420</b>	<b>66,612</b>

\* This represents the turnover of Zhangjiagang Win Hanverky Container Terminal Co., Ltd.

Operating profit includes profit before taxation from the Company and its subsidiaries whereas profit attributable to shareholders includes profit after taxation from the Company, its subsidiaries, associated companies and jointly controlled entities.

During the first half, the Asian economy despite showing signs of stabilisation remained slow in recovery. In view of this, the Group has cautiously controlled its development momentum. Total capital expenditure during the period was scaled down by 60.9% to US\$46,792,000 (1998: US\$119,643,000), the majority of which was spent on new container purchases and investments for the Shanghai Yixian Road project. As at 30th June 1999, the Group's outstanding borrowings amounted to US\$586,182,000 (1998: US\$682,461,000). Interest expense declined by 11.6% to US\$18,527,000 (1998: US\$20,946,000). The average borrowing cost was 6.2% which was lower than the 6.9% recorded in the corresponding period last year. Interest coverage was 4.8 times (1998: 4.4 times).

During the period, the Group continued to adopt prudent financial policies and maintained a healthy financial position. In May this year, the Group received US\$53,820,000 by issuing 87,311,767 new shares. As at 30th June, 1999, net debt-to-equity ratio was further reduced to 48.8% (1998: 72.1%) and the cash balance amounted to US\$126,549,000 (1998: US\$111,924,000). Interest income increased 51.6% to US\$2,207,000 (1998: US\$1,456,000).

## Container leasing

For the six months ended 30th June 1999, rental income of our container leasing business slipped by 0.5% to US\$98,853,000 (1998: US\$99,325,000). China Ocean Shipping (Group) Company ("COSCO Group") accounted for 72.3% of the rental income (1998: 74.8%), a drop of 2.5 percentage points. This was mainly attributable to the return of containers by COSCO Group upon the expiry of the 10-year leases. In addition, COSCO Group was dedicated to strengthening the operating efficiency of its fleet and increasing the slot utilisation rate in order to maximize the use of existing containers. As a result, COSCO Group did not lease additional containers from the Group during the first half, but planned to place orders for the manufacture of 15,000 TEUs of new containers in the second half. Moreover, the remarkable increase in non-COSCO Group customers was one of the attributes. They accounted for 27.7% (1998: 25.2%) of the Group's total rental income, an increase of 2.5 percentage points. The Group has been actively expanding its non-COSCO Group customer base, with the number of customers rose to 184 from 126 a year ago.

Operating profit margin dropped 4.8 percentage points to 42.2% (1998: 47.0%). The reduction was mainly due to the decline in container leasing rates caused by the deterioration in new container prices and increased depot costs for returned containers.

The Group achieved an average utilisation rate of 96.2% (1998:97.4%) for its container fleet, still well above the industry average of approximately 80%. The utilisation rate in leases with COSCO Group remained at 100%, whereas the utilisation rate in leases with non-COSCO Group customers was 88.8% (1998:91.5%). The drop in non-COSCO utilisation rate was mainly due to the increase in short-term leasing.

During the period, the Group invested US\$32,592,000 (1998: US\$110,000,000) to acquire 23,250 TEUs (1998:48,782 TEUs) of new containers, of which 21,600 TEUs (1998: 42,966 TEUs) were dry containers, 350 TEUs (1998: 1,550 TEUs) were reefers, and 1,300 TEUs (1998: 4,266 TEUs) were specialised containers.

During the period under review, the Group received 36,506 TEUs (1998: 20,654 TEUs) of used containers returned by COSCO Group upon the expiry of some of the 10-year leases. Of this amount, 17,974 TEUs (1998: 12,833 TEUs) were disposed of in the secondary market at a profit of US\$5,335,000 (1998: US\$5,856,000). The Group will have to handle a total of approximately 21,785 TEUs of used containers, made up by the remaining unsold 18,532 TEUs carried forward from the first half and 3,252 TEUs unsold at the end of last year. All these used containers are dry containers. Another batch of approximately 8,589 TEUs of used containers are expected to be returned by COSCO Group upon the expiry of leasing contracts in the second half. The above used containers will be either disposed of or leased out.

As at 30th June 1999, the total capacity of the Group's container fleet decreased by 1.0% to 491,250 TEUs (1998: 496,031 TEUs). Major changes in fleet capacity and composition during the period are as follows:

<b>Change in fleet capacity</b>	<b>TEU</b>
Total fleet size (as at 31st December 1998)	505,954
During the first half of 1999 :	
New containers purchased	23,250
Used containers received upon expiry of leases	(36,506)
Defective containers written off	(1,448)
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Total fleet size (as at 30th June 1999)	491,250
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<b>Fleet composition</b>	<b>As at 30th June 1999</b>	<b>As at 30th June 1998</b>
Dry containers	91.0%	91.3%
Reefers	6.2%	6.1%
Specialised containers	2.8%	2.6%

## Container terminals

Our container terminals made solid performance, achieving an aggregate throughput of 2,677,457 TEUs in the first half, a 27.2% gain over the corresponding period last year.

COSCO-HIT Terminals (Hong Kong) Limited ("COSCO-HIT"), in which the Group has a 50% interest, recorded a throughput of 552,623 TEUs during the first half, a 0.7% mild decrease compared with the same period last year. The decline was attributable mainly to the rescheduling of individual shipping routes by COSCO Group. Despite the throughput reduction, profit was up on the contrary due to the increase in proportion for the handling of local containers and the effective control on production cost. As a result, the Group's share of profit before taxation from COSCO-HIT increased 0.5% to US\$14,688,000 (1998: US\$14,621,000).

The Group's investments in the four container terminals in the People's Republic of China ("PRC")

recorded satisfactory results during the first half of 1999. The aggregate throughput of the four terminals rose 37.3% to 2,124,834 TEUs (1998: 1,547,690 TEUs). Breakdown of throughput among the Group's container terminals is as follows:

Terminal	First half of 1999 <i>TEU</i>	First half of 1998 <i>TEU</i>	Increase/(Decrease) %
COSCO-HIT Terminals (Hong Kong) Limited	552,623	556,493	(0.7)
Shanghai Container Terminals Ltd.	1,202,678	918,653	30.9
Qingdao Cosport International Container Terminals Co., Ltd.	181,683	157,171	15.6
Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	54,945	53,913	1.9
Yantian International Container Terminals Ltd.	685,528	417,953	64.0
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Total	2,677,457	2,104,183	27.2
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### River Trade Terminal

The Group has a 10% interest in River Trade Terminal Holdings Limited ("River Trade Terminal"). River Trade Terminal completed its first phase in October 1998. Full completion of the terminal is expected by the end of 1999.

### Container handling and storage

Plangreat Limited and its subsidiaries provide container stevedoring, container storage and container repair and transport services. During the period, the company lifted its turnover by 2.5 % to US\$5,645,000 (1998: US\$5,505,000).

### Container-related industries

The Group holds equity interest in PRC container and paint manufacturing plants. Among them, Shanghai CIMC Reefer Containers Co., Ltd., Tianjin North Ocean Container Co., Ltd. and Tianjin Kansai Paint and Chemicals Co., Ltd. experienced output decline due to a delay in orders during the first half. The output of Shanghai Kansai Paint & Chemical Co., Ltd. and Shanghai Far East Container Co., Ltd. showed an increase.

### Shanghai Yixian Road Project

The Group has invested a 30% interests in Twinbridge Development Corp. ("Twinbridge"). The elevated expressway invested by Twinbridge was opened for traffic on 20th May 1999. As a result, traffic flow on the primary route has been significantly enhanced. During the first half, the primary route saw 4,065,391 vehicles (1998: 3,806,640 vehicles) passing through, up 6.8%, leading to an increase in toll receipts collected by the two toll bridges at the primary route.

### **Liu Chong Hing Bank**

The Group has a 20% interest in Liu Chong Hing Bank Limited. Contribution of this investment to the Group's profit attributable to shareholders declined to US\$4,906,000 (1998: US\$6,196,000), mainly as a result of narrowing interest margins and the provisions prudently made. Recently the Hong Kong economy has shown signs of recovery and should benefit the banking sector.

## **THE YEAR 2000 ISSUE**

The Group has set up a special task force to formulate corrective measures and to supervise the implementation and progress of the Year 2000 ("Y2K") compliance programme (the "Programme"). The managing director of the Group heads the task force. Individual team members are assigned to supervise and co-ordinate the various companies within the Group on the implementation of the Programme. The Group has carried out in-depth analysis to identify Y2K problems in all major systems and equipment and has carried out all relevant Y2K compliance tests and amendments for major systems that are in use.

The majority of the systems and equipment used by the Group was developed and/or purchased after 1996 with Y2K compliant consideration and has been amended or replaced where necessary. As of 30th June 1999, the Group has completed those procedures in relation to the Programme.

The Group has also completed the review of Y2K contingency plans. For the contingency plans of those critical systems, the Group had performed series of test. The plans include mitigating the effects of any failure to complete remedial work on critical business systems, business resumption contingency plans to address the possibility of the failure of systems or processes outside the Group's control. Although the Group has developed measures and contingency plans for Y2K issues, the Group is, however, unable to predict the effect if any of the plans does not work.

Lack of readiness on the part of third parties would expose the Group to the potential for loss, impairment of business processes and activities, and disruption of financial markets. The Group is addressing these risks through communication and co-operation with the involving parties. Further details are contained in the Group's 1999 Interim Report.

## **PROSPECTS**

The Group has been adopting a prudent yet proactive business strategy in developing and strengthening its core businesses. Given the uncertainty of the economic environment, this strategy is particularly appropriate since the Group pursues its business growth within the parameters of its financial strengths. The Group remains highly confident about the potential of the PRC port business and will continue to look at major container terminals in the PRC for investment opportunities.

With The PRC set to join the World Trade Organisation, COSCO Group being the largest container shipping company in the PRC could directly benefit from the expected growth in cargo transport. As the overseas listed flagship of COSCO Group, the Group would enjoy much more room for business growth. The Group is therefore confident about its prospects.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SHARES**

During the six months ended 30th June 1999, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

#### **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 1999, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company has established an Audit Committee consisting of three independent non-executive directors of the Company to review and supervise the Group's financial reporting process and internal controls.

By Order of the Board

**SHI Qin**

*Managing Director*

Hong Kong 31st August 1999